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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001527

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USDOC FOR 4212/ITA/MAC/CPD/CRUSNAK
DOE FOR CHARLES WASHINGTON
EUR ALSO FOR MATT BRYZA AND STEVE MANN

E.O. 12958: DECL: 03/19/2016

TAGS: [EPET](#) [ENRG](#) [EINV](#) [PREL](#) [TU](#) [GG](#) [AZ](#)

SUBJECT: TURKEY: PLAYING CHICKEN ON BTC AND CASPIAN GAS

REF: A. ANKARA 1010

[1](#)B. ANKARA 65

[1](#)C. 05 ANKARA 7312

[1](#)D. ANKARA 7067

Classified By: DCM NANCY MCELDFOWNEY FOR REASONS 1.4 (B,D)

[1](#)1. (C) Summary: During Ambassador Steven Mann's March 17 meetings in Ankara, Turkish government and BTC officials said they are still aiming for loading the first oil tanker May 27 in Ceyhan, although the target date for an official ceremony has slipped to July. The BTC consortium and BOTAS are at loggerheads about sharing responsibility for funding approximately \$330 million in cost over-runs under the lump sum-turnkey contract awarded to BOTAS for pipeline construction in Turkey. Turkish and U.S. officials stressed the importance of Azerbaijan and Georgia in developing southern corridor east-west natural gas transit. There is interest in exploring links to Kazakhstan and Turkmenistan. End Summary.

Playing Chicken on BTC

[1](#)2. (C) In a March 17 meeting in Ankara with Ambassadors Wilson and Mann, BTC CEO Michael Townshend reaffirmed the target of first tanker loading at Ceyhan May 27, with an official ceremony the second week of July. Sharing his concerns about BOTAS, capacity to complete the work and lamenting the political reality that the GOT Treasury guarantee was not actionable, Townshend stressed that the BTC consortium could not accept full responsibility for delays and cost over-runs. The BTC CEO shared what he described as a final and generous offer to the Turkish Minister of Energy to accept limited responsibility and fund a portion of cost over-runs. Townshend felt this would expedite completion in a win-win way and avoid a messy arbitration where the GOT would win a less advantageous result. Out of about \$330 million in disputed claims, BTC,s final offer calls for BOTAS to cover \$80 million. (BTC has already advanced \$192 million to BOTAS.) In addition, the BTC consortium would provide other measures to assist cash flow at BOTAS and its pipeline operating arm (BIL) BOTAS International).

[1](#)3. (C) Ambassador Wilson agreed that arbitration would not be a productive path, noting the negative signals this would create for building links to Kazakhstan for BTC and for improving Turkey,s investment environment when Turkey aims

to seed \$126 billion in energy investment, including moving forward on ambitious plans for a new nuclear power program and catalyzing Ceyhan as a regional energy hub.

Natural Gas From Azerbaijan and Beyond

14. (C) Townshend also reported that construction of the follow-on South Caucasus Pipeline for Shah Deniz natural gas is remarkably proceeding on schedule for the end of 2006. He expects delays in BOTAS achieving connection to the Turkish grid at Erzurum. Townshend noted, however, that BOTAS had asked BTC if it could secure a natural gas compressor, critical for completion of the connection) and not at all easy to procure on short notice.

15. (C) In a separate March 17 lunch hosted by the MFA, Turkish officials raised a number of energy questions, including Georgia,s request for additional and earlier gas from the SCP. Energy DDG Mithat Rende criticized Georgia,s arbitrary increase in projected annual demand from 1.2 BCM to 3.5 BCM, based on inflated rosy projections for domestic growth and a chemical fertilizer plant. He and Mann agreed that regardless of source, the fact was becoming clear that Georgia would have to pay a market rate for gas. Rende articulated Turkey,s oft-repeated position that Shah Deniz gas offered Turkey diversification, re-export rights, and advantageous pricing.

16. (C) These issues were also discussed by A/S Fried in separate meetings March 16 at the MFA with Under Secretary Tuygan, Deputy Under Secretary Uzumcu and DDG Rende. Fried described the current focus on energy issues involving both

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Azerbaijan and Georgia as "huge". Seldom, he said, had he seen the Europeans react with such alacrity as they had after the Russian gas cut-off to Ukraine. Suddenly they were serious about diversification of energy supplies. He noted that EB A/S Wayne would give the definitive USG policy statement at a March 17 NATO energy meeting. Fried had told President Aliyev that, while the U.S. was offering no final endorsements, we supported the notion of at least exploring Trans-Caspian gas, whether from Turkmenistan or Kazakhstan. Such gas would run through Azerbaijan and Georgia and, if there is an N-K settlement, perhaps through Armenia as well. The Russians are not happy, but were embarrassed at the reaction to the gas cut-off. They still stand to earn a great deal. What is needed is competition, not the monopoly that Gazprom currently enjoys. Nazarbayev may not be a democrat, for example, but he can add up the difference between \$10 (from Gazprom) and \$110 (from the free market) per BTU. Aliyev is very aware of the issue. We hope, Fried said, that Shah Deniz moves ahead.

17. (C) On BTC, Fried said the Azeris and others had expressed serious concerns about apparent BOTAS-related construction delays in Turkey. Tuygan, who seemed surprised, explained that the oil had come as far as Erzurum and the first tanker would be filled by late May. Turkey, too, was interested in energy diversification, and wanted to serve as a transit hub for oil and gas. Of course the Caspian region was very important, but there were possibilities for Egyptian gas as well. On Caspian gas, we ought to work together, and everyone should have a chance to compete. MFA, Tuygan noted, had just appointed Ambassador Mithat Balkan as its energy coordinator. Fried agreed on the need for competition - a Gazprom monopoly means a lack of investment. Without Gazprom reform, fueled by competition, there will be insufficient investment in the Siberians fields.

EMBASSY COMMENT

¶8. (C) It seems reasonable for BTC not to accept BOTAS, position that all the delays and over-runs are due to "scope changes" by BTC and therefore not attributable to BOTAS, mismanagement of the fixed price contract and choice of inexperienced sub-contractors. However, the Consortium to date has loaned money to BOTAS to expedite completion. There is a danger that Turkey could play this face-off in a ham-handed way and continue to force a game of chicken that could lead to arbitration. But, BTC is a western company coalition (which also includes state oil company TPAO). The consequences of lost transit fees (\$10 million per month) and arbitration could be grave from a financial and investment perspective.

¶9. (C) BTC's problems with BOTAS come in the context of various reports that BOTAS' financial and management capacity is under more and more strain. The company has no clear leadership or support from senior government officials, and has limped along since June 2005 under a series of ineffectual acting directors. The company is under threat from a variety of allegations and investigations into corruption and mismanagement in tendering and project implementation. The threat of investigation, subsequent public disgrace, and years spent battling court cases -- even if innocent -- is doing increasing damage in the Turkish energy sector. Turkey has ambitious plans to act as a regional energy hub, plans which the U.S. should continue to support vigorously, but the investigative threat and constant bureaucratic hurdles act as a real handicap to the attainment of that vision. The handling of the BTC dispute is the immediate case in point. The longer BTC, the flagship Caspian energy project is delayed, the further both the U.S. and Turkey will be from advancing our joint energy goals.

¶10. (U) Amb Mann has cleared this cable.

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WILSON